

Annual Report
FIRST NATIONAL STORES INC.
year ending

BOARDS
9662-7224
FOLDY

March 29th 1941

FIRST NATIONAL STORES INC

Officers

ARTHUR O'KEEFFE, *President*

CHARLES F. ADAMS, *Treasurer*

JAMES C. DUANE	<i>Vice-President</i>
BERNARD F. MCGOLDRICK	<i>Vice-President</i>
MORRIS JOSELOFF	<i>Vice-President</i>
JOHN L. MACNEIL	<i>Vice-President</i>
RALPH F. BURKARD	<i>Assistant Treasurer</i>
JOHN E. ELWELL	<i>Clerk</i>



Executive Committee

CHARLES F. ADAMS
RALPH F. BURKARD
MORRIS JOSELOFF
BERNARD F. MCGOLDRICK
ARTHUR O'KEEFFE



Directors

CHARLES F. ADAMS
CHARLES H. BURGER
RALPH F. BURKARD
JAMES C. DUANE
BYRON M. FLEMMING
ROBERT F. IRWIN
MORRIS JOSELOFF

SAMUEL JOSELOFF
JOHN L. MACNEIL
BERNARD F. MCGOLDRICK
JAMES J. O'HARE
MICHAEL J. O'HARE
ARTHUR O'KEEFFE
NATHANIEL E. WHITEMORE

Somerville, Massachusetts, June 6, 1941.

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

The Annual Report of your Company for the fiscal year ending March 29, 1941 is presented herewith.

The figures given in this report are comparable with those of prior years as there has been no change in the Company's established method of bookkeeping. The Balance Sheet and Statement of Earnings and Surplus Account have been prepared by independent accountants, Messrs. Price, Waterhouse & Co., and their statement of comments thereon is included in this report.

Results of the operations for the year show an increase in our sales of 8.88%; profit margin and expenses per dollar of sales were both lower. Our final net profit after all charges and Federal Taxes, amounted to \$3.06 per common share as compared with \$3.34 per share for the previous year. This decline in earnings is principally due to an increase in our Federal Taxes for the current fiscal year which amounted to 98 cents per common share as compared with 65 cents per share for the previous fiscal year.

Your company continues to have adequate working capital and is in sound financial condition.

The following is a condensed summary of operations for the fiscal year ending March 29, 1941, compared with operations for the fiscal year ending March 30, 1940. There is also shown the financial position of this Company at March 29, 1941 compared with March 30, 1940.

	<i>For the Fiscal Year Ending</i>	
	<i>March 29, 1941</i>	<i>March 30, 1940</i>
Retail stores sales	\$142,680,921	\$131,041,157
Net profits after taxes, depreciation and all charges and available for dividends	\$2,508,719	\$2,739,074
Earnings per share of common stock after preferred dividends paid during the year (on common shares outstanding at end of year)	\$3.06	\$3.34
<i>As of</i>		
	<i>March 29, 1941</i>	<i>March 30, 1940</i>
Net working capital (current assets less current liabilities)	\$15,073,655	\$15,391,322
Fixed or property assets (less depreciation)	\$9,771,200	\$9,072,835
Net worth	\$25,293,286	\$24,874,883
Earned surplus	\$18,492,334	\$18,031,935

On the following page graphic charts show the results of our operations for the past fifteen years.

DEPRECIATION CHARGES AND MAINTENANCE CHARGES

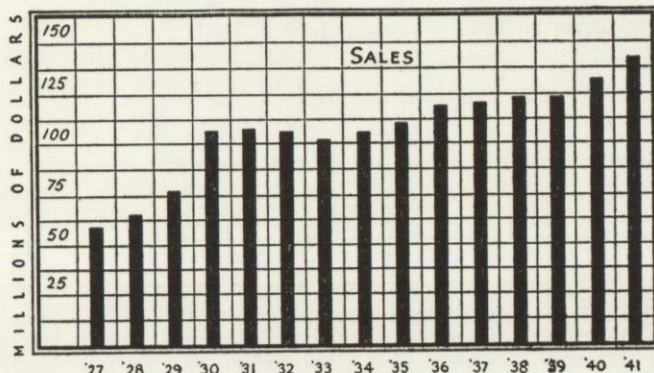
	<i>Fiscal Years</i>		
	<i>1941</i>	<i>1940</i>	<i>1939</i>
Depreciation charges	\$972,868	\$953,731	\$956,014
Maintenance repairs and renovation charges	\$1,132,894	\$1,329,888	\$1,057,944

The above amounts were charged to earnings in their respective years to cover the depreciation, maintenance repairs and renovation (including the cost of conversion of service stores to self-service stores) of all of our depreciable assets, including buildings owned, store and plant fixtures, improvements, machinery, equipment, automobiles and trucks.

DIVIDENDS PAID

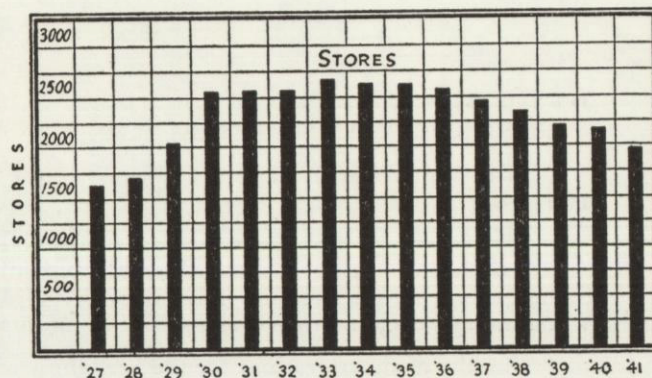
Four quarterly dividends of 62½ cents a share totalling \$2.50 were paid for the fiscal year on the common stock outstanding.

Four regular quarterly dividends of 20 cents a share totalling \$.80 were paid for the fiscal year on the small remaining outstanding balance of preferred shares.



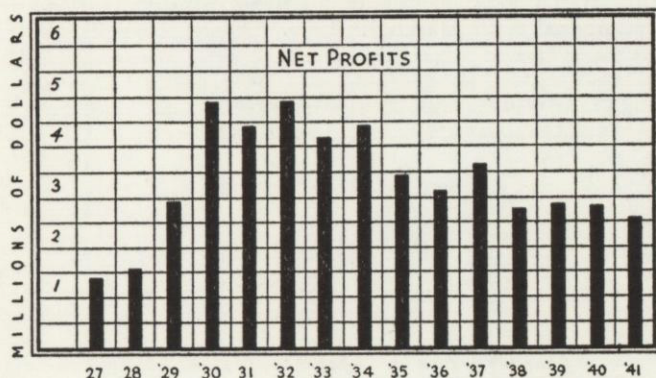
Retail Store Sales—Fiscal Years

1927	\$59,038,304	1932	\$107,634,383	1937	\$120,682,961
1928	64,445,962	1933	100,892,947	1938	124,294,617
1929	75,884,639	1934	105,812,781	1939	124,222,955
1930	107,635,216	1935	111,323,463	1940	131,041,157
1931	108,196,686	1936	119,575,417	1941	142,680,921



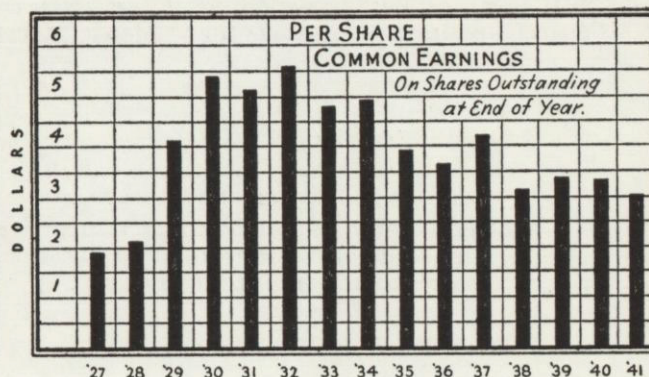
Stores—Fiscal Years

1927	1681	1932	2546	1937	2473
1928	1717	1933	2705	1938	2350
1929	2002	1934	2653	1939	2244
1930	2549	1935	2623	1940	2137
1931	2548	1936	2556	1941	1923



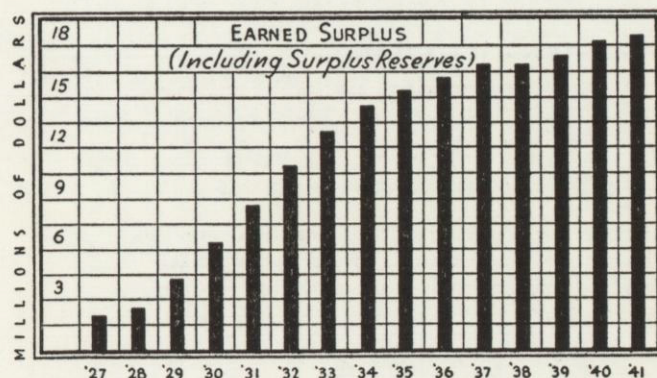
Net Profits—Fiscal Years

1927	\$1,492,193	1932	\$4,825,611	1937	\$3,647,001
1928	1,593,358	1933	4,220,099	1938	2,705,191
1929	2,904,884	1934	4,394,830	1939	2,774,366
1930	4,773,446	1935	3,433,504	1940	2,739,074
1931	4,479,108	1936	3,163,329	1941	2,508,719



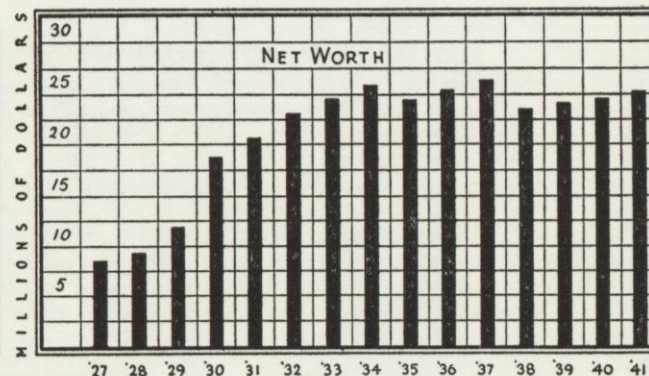
Per Share Common—Fiscal Years

1927	\$1.92	1932	\$5.52	1937	\$4.24
1928	2.09	1933	4.78	1938	3.14
1929	4.07	1934	4.97	1939	3.38
1930	5.39	1935	3.89	1940	3.34
1931	5.03	1936	3.65	1941	3.06



*Surplus (Including Surplus Reserves)
Fiscal Years*

1927	\$1,996,375	1932	\$10,816,321	1937	\$16,670,118
1928	2,238,303	1933	12,666,672	1938	16,688,036
1929	3,987,782	1934	14,213,494	1939	17,423,131
1930	6,369,726	1935	15,121,448	1940	18,112,565
1931	8,371,910	1936	16,062,827	1941	18,572,964



Net Worth—Fiscal Years

1927	\$8,723,782	1932	\$22,793,743	1937	\$26,369,140
1928	8,965,710	1933	24,644,094	1938	23,746,089
1929	11,724,410	1934	26,190,916	1939	24,216,168
1930	18,347,148	1935	24,820,470	1940	24,874,883
1931	20,349,333	1936	25,761,849	1941	25,293,286

PREFERRED STOCK — RETIREMENT

During the fiscal year ending March 29, 1941, the company purchased 3,313 shares of its \$10 par value Preferred Stock and in April and May of 1941 all of the remaining outstanding shares of this issue, amounting to 110 shares, were also purchased.

All of the issued and outstanding Preferred Stock (7,007 shares) now having been acquired by the company, will, upon approval of stockholders at the forthcoming annual meeting on June 23, 1941, be cancelled and retired. Your company will then have only one class of stock authorized and outstanding—namely Common Stock.

GROCERY STORES AND MARKETS

Your company had in operation on	March 29, 1941	March 30, 1940
Grocery Stores	1,457	1,680
Markets or Combination Grocery, Fruit, Vegetable and Meat Stores	466	457
Total Grocery Stores and Markets	1,923	2,137

On March 29, 1941 we had in operation 214 less stores than on March 30, 1940. The trend toward fewer and larger stores with self-service grocery departments continues in our company and throughout our industry generally. We had in operation 188 self-service markets and 59 self-service grocery stores on March 29, 1941.

PUBLIC RELATIONS

In our relations with consumers, with agriculture, with civic, charitable and community groups and with all of the many other organizations and individuals comprising the Public in our operating territory, we always have accepted full responsibility to be constructive and to measure up to a high standard of citizenship.

During many years, for example, we have worked with farmers in our territory to increase consumption of native products, and to develop improved marketing facilities in the interest of a healthier agriculture. We have considered it to be in the interest of economic stability to seek out supplies for our stores from nearby in as great a degree as consistent with consumer demand, and our local purchases of the farm and factory products of communities where we operate stores have increased in five years from 33½ million dollars annually to 39¾ millions, or an increase of 18 percent. We have cooperated in setting up various plans for more direct and more economical distribution of farm products, to the end that the consumer may have the benefit of distributive economies and the farmer an increased share of the consumer dollar; and representatives of our Company meet frequently with farm leaders to work out programs of benefit to agriculture.

Not only does the Company contribute its share in civic, charitable and community endeavors, but our people are participating actively in many of these worthy causes.

In the National Defense, we are helping, through economical distribution, to make healthful food available to the civilian population at lowest possible prices, and are cooperating fully in both national and regional defense planning.

TAXES

For the fiscal year ending March 29, 1941, earnings were charged with direct taxes of \$2,002,231. This amounts to 44% of our profits before taxes for the year or \$2.44 for each share of our Common Stock. A summary of our direct taxes follows:

Fiscal Year	Total Direct Taxes	% of Income (before taxes)	Per Share On Common	Per Store Operated
1941	\$2,002,231	44%	\$2.44	\$1,041
1940	1,656,274	37%	2.02	753
1935	1,111,096	24%	1.36	420
1930	796,693	14%	.97	324

LEGISLATION

In our three previous annual reports we informed our stockholders of the so called "Patman Bill" aimed at the destruction of chain stores by taxation, which was introduced into the House of Representatives of the United States. This bill had a hearing in Washington from March 27th to May 16th, 1940, before a subcommittee of the Ways and Means Committee of the House of Representatives. Our company had representatives in attendance throughout the hearings.

Every argument which ever has been advanced for destruction of chain stores, or for their penalization through discriminatory taxation, was put into the Public Record. Every charge, suspicion and allegation in support of the Bill was met fully by those who appeared in opposition; and many of these opponents were not affiliated with chain stores but were independent economists, Governmental experts and others who testified from the standpoint of public interest. The Record of these Hearings fills three volumes of 1507 printed pages, and makes the detailed testimony as to the constructive place of chain stores in American life a matter of public information. There were 25 witnesses for the Patman Bill; 148 witnesses against. No farmer nor any representative of agricultural interests appeared in favor of the measure, whereas 65 witnesses representing agriculture opposed it, and these included representatives of such organizations as the Farm Bureau, the Grange and others, all testifying that chain stores are rendering to them a vital and necessary service by widening markets and increasing the consumption of agricultural products. No representative of labor spoke for the Bill; eight spoke against, pointing out as one of the many advantages to wage-earners from chain stores the lower living costs and higher living standards due to chain store economies. No real estate representative spoke for it, whereas six opposed it, emphasizing the contributions chain stores make to the development of a healthy business life in the communities in which they operate.

While the Ways and Means sub-committee did not report the Patman Bill to the full committee in 1940, the Bill was re-introduced this year into the House of Representatives. Therefore, we again urge our stockholders to continue to register protests to their Congressmen and Senators in opposition to this destructive and uneconomic proposal—whenever an opportunity presents itself.

Every State Legislature in New England and New York, your Company's operating territory, has been in session in recent months and Maine is the only State where an anti-chain tax bill was introduced. A hearing upon the bill was held before the Committee on Taxation which recommended that the bill "ought not be passed". Both branches of the Maine Legislature sustained the Committee's report and rejected the bill.

There are presently no so-called discriminatory chain store taxes in the New England States and New York, where we operate.

STOCKHOLDERS

Our latest dividend list shows 9,481 common stockholders. These shareholders reside in practically every city and town in New England where our stores are located and throughout the rest of the United States and some foreign countries as well. We have an average of nearly 5 stockholder-owners for each store we operate.

The following table shows the number of our common shareholders at various intervals since 1926.

		<i>As of March</i>			
<i>1941</i>	<i>1938</i>	<i>1935</i>	<i>1932</i>	<i>1929</i>	<i>1926</i>
9,481	9,228	6,576	4,607	1,975	1,304

TREASURY STOCK — OPTIONS

Of the 9,057 shares of common stock acquired by purchase and on hand in our treasury on March 29, 1941, 3,820 shares are set aside under option to certain employees at a price near the market at the time such options were executed.

We take this opportunity to record our thanks and appreciation to our employees who have loyally supported and cooperated with our management during the past year.

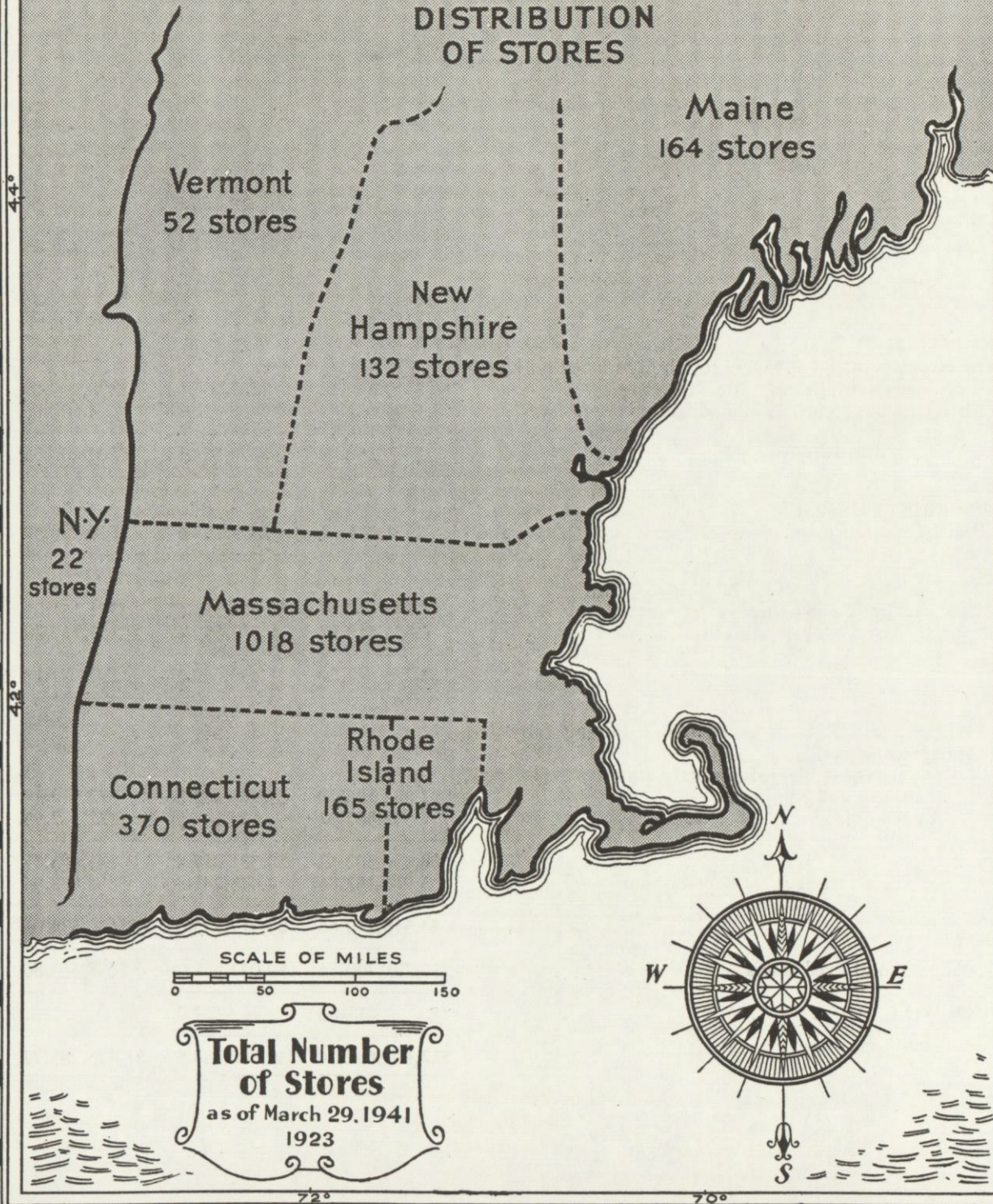
ANNUAL MEETING — PROXIES

A notice of the Annual meeting of stockholders, proxy statement and proxy accompany this report. Stockholders are requested to sign the management's authorized proxy and mail promptly in the return envelope provided. Your immediate cooperation in this important matter will save your Company much time and expense and will be greatly appreciated.

ARTHUR O'KEEFFE,
President.

FIRST NATIONAL STORES INC.

GEOGRAPHICAL DISTRIBUTION OF STORES



FIRST NATIONAL STORES INC.
Comparative Balance Sheet—March 29, 1941 and March 30, 1940

ASSETS			
	March 29, 1941	March 30, 1940	Increase *Decrease
CURRENT ASSETS:			
Cash in banks and on hand (after deducting \$511,627 for dividends payable April 1, 1941)	\$5,324,029.01	\$4,839,393.78	\$484,635.23
U. S. Government securities (at market quotations March 29, 1941—approximately \$1,583,600)	1,580,000.00	3,080,000.00	*1,500,000.00
Accounts receivable, less reserve	428,816.70	414,684.34	14,132.36
Accounts receivable—officers and employees	3,790.29	4,848.60	*1,058.31
Inventories of merchandise, materials and supplies on hand and in transit, at cost or market whichever lower	14,257,568.77	12,584,842.48	1,672,726.29
Total current assets	<u>\$21,594,204.77</u>	<u>\$20,923,769.20</u>	<u>\$670,435.57</u>
INVESTMENTS, ETC.:			
Investments in and advances to wholly-owned milk and creamery subsidiaries—at cost, less reserves	\$317,603.12	\$217,603.12	\$100,000.00
Miscellaneous securities and advances	71,581.87	66,981.01	4,600.86
Total investments, etc.	<u>\$389,184.99</u>	<u>\$284,584.13</u>	<u>\$104,600.86</u>
DEFERRED CHARGES:			
Prepaid insurance and expenses	\$651,051.12	\$699,159.64	*\$48,108.52
FIXED ASSETS (AT COST):			
Land and buildings owned	\$7,146,769.67	\$6,865,618.62	\$281,151.05
Less—Reserve for depreciation	1,893,718.47	1,710,559.27	183,159.20
	<u>\$5,253,051.20</u>	<u>\$5,155,059.35</u>	<u>\$97,991.85</u>
Fixtures and equipment, etc. (after deducting fully-depreciated assets)—			
Store fixtures, leased property improvements, machinery and equipment	\$7,884,195.00	\$7,861,682.86	\$22,512.14
Automobiles	552,307.52	529,334.59	22,972.93
	<u>\$8,436,502.52</u>	<u>\$8,391,017.45</u>	<u>\$45,485.07</u>
Less—Reserve for depreciation	3,918,352.86	4,473,241.80	*554,888.94
	<u>\$4,518,149.66</u>	<u>\$3,917,775.65</u>	<u>\$600,374.01</u>
Total fixed assets	<u>\$9,771,200.86</u>	<u>\$9,072,835.00</u>	<u>\$698,365.86</u>
GOODWILL	\$1.00	\$1.00
	<u>\$32,405,642.74</u>	<u>\$30,980,348.97</u>	<u>\$1,425,293.77</u>

FIRST NATIONAL STORES INC.

Comparative Balance Sheet—March 29, 1941 and March 30, 1940

LIABILITIES			
	March 29, 1941	March 30, 1940	Increase *Decrease
CURRENT LIABILITIES:			
Acceptances payable under letters of credit	\$128,883.65	*\$128,883.65
Accounts payable	\$4,043,522.60	3,301,327.81	742,194.79
Accrued taxes and other expenses	1,256,519.75	1,071,634.22	184,885.53
Employees' investment certificates	306,780.00	335,090.00	*28,310.00
Provision for federal income taxes	913,726.90	695,511.11	218,215.79
Total current liabilities	<u>\$6,520,549.25</u>	<u>\$5,532,446.79</u>	<u>\$988,102.46</u>
RESERVES:			
For contingencies	\$334,600.58	\$334,600.58
For preferred stock sinking fund	80,630.50	80,630.50
Miscellaneous	257,206.10	238,418.38	\$18,787.72
Total reserves	<u>\$672,437.18</u>	<u>\$653,649.46</u>	<u>\$18,787.72</u>
CAPITAL STOCK AND SURPLUS:			
8% preferred stock—			
Authorized—72,007 shares, par value \$10 each			
Issued—7,007 shares	\$70,070.00	\$70,070.00
Common stock—			
Authorized—1,000,000 shares without par value			
Issued—827,634 shares	6,977,422.07	6,977,422.07
EARNED SURPLUS	18,492,334.45	18,031,935.03	460,399.42
Together	<u>\$25,539,826.52</u>	<u>\$25,079,427.10</u>	<u>\$460,399.42</u>
Deduct—capital stocks held in treasury:			
Common stock, at reduced amounts carried on books			
—9,057 shares	\$241,142.63	\$241,142.63
8% preferred stock, at cost—6,897 shares at March			
29, 1941	86,027.58	44,031.75	\$41,995.83
	<u>\$327,170.21</u>	<u>\$285,174.38</u>	<u>\$41,995.83</u>
Total capital stock and surplus, less treasury			
stock	<u>\$25,212,656.31</u>	<u>\$24,794,252.72</u>	<u>\$418,403.59</u>
	<u>\$32,405,642.74</u>	<u>\$30,980,348.97</u>	<u>\$1,425,293.77</u>

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have examined the comparative balance sheet of First National Stores Inc. as of March 29, 1941 and March 30, 1940, and the statements of earnings and surplus for the fiscal year ending March 29, 1941, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying comparative balance sheet and related statements of earnings and surplus present fairly the position of First National Stores Inc. at March 29, 1941 and March 30, 1940, and the results of its operations for the fiscal year ending March 29, 1941, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

Boston, Massachusetts.
May 31, 1941.

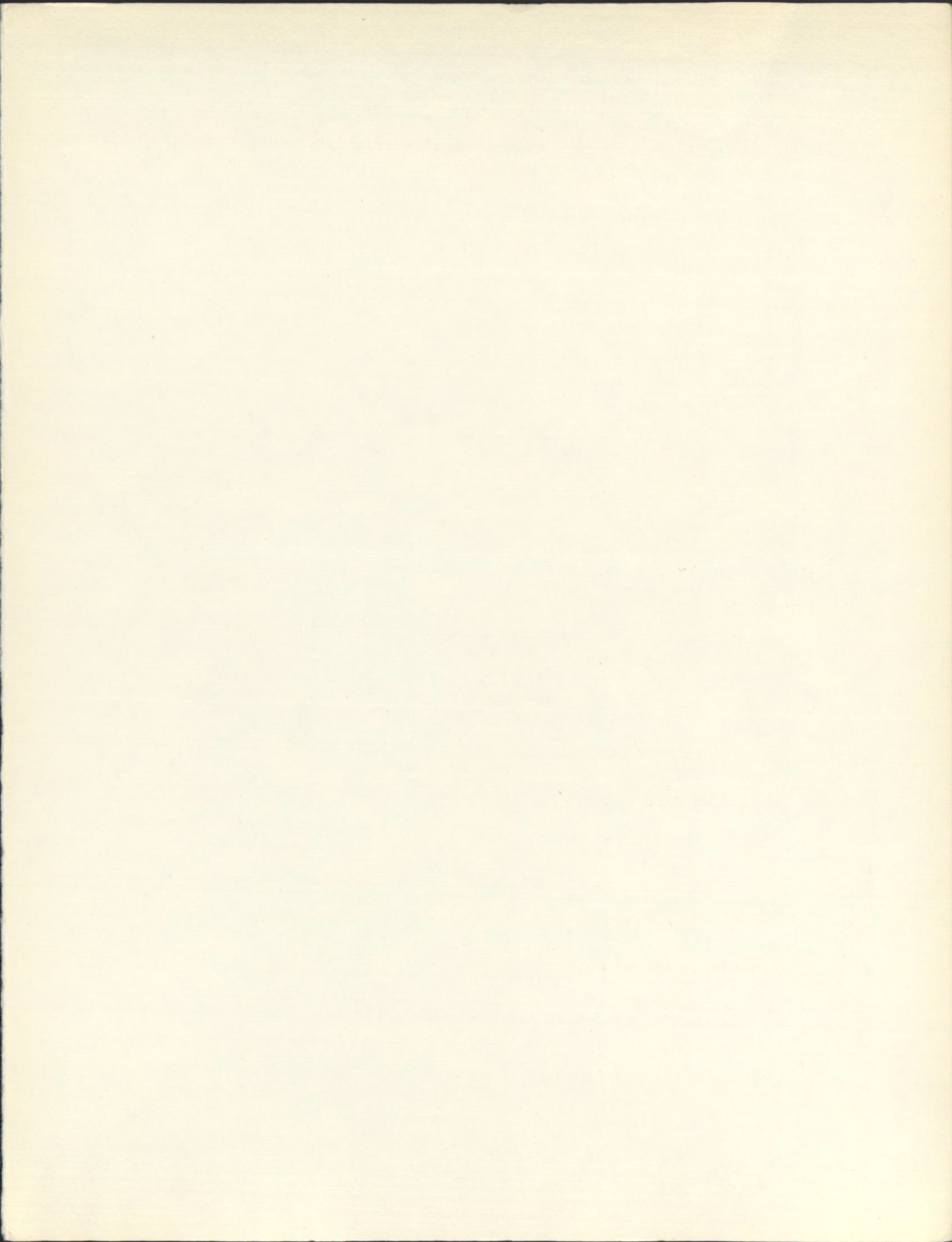
FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS—FISCAL YEAR ENDING MARCH 29, 1941

Sales			\$142,680,921.69
<i>Less:</i>			
Cost of sales, expenses, etc. (exclusive of depreciation)			138,253,888.30
			<u>\$4,427,033.39</u>
<i>Deduct:</i>			
Depreciation on fixed assets			972,868.19
			<u>\$3,454,165.20</u>
<i>Add—Other income:</i>			
Interest and dividends received			199,770.32
			<u>\$3,653,935.52</u>
<i>Deduct—Other charges:</i>			
Interest paid	\$23,180.49		
Loss on disposition of fixed assets (net)	314,940.63		338,121.12
			<u>\$3,315,814.40</u>
<i>Deduct:</i>			
Provision for federal normal income taxes	\$807,094.90		
Provision for federal excess profits taxes	None		807,094.90
			<u>\$2,508,719.50</u>
Net profit for the fiscal year ending March 29, 1941			<u><u>\$2,508,719.50</u></u>

STATEMENT OF SURPLUS FOR THE FISCAL YEAR ENDING MARCH 29, 1941

Earned surplus at March 30, 1940			\$18,031,935.03
Net profit for the fiscal year ending March 29, 1941		\$2,508,719.50	
<i>Less:</i>			
Dividends paid—			
Preferred stock	\$1,903.20		
Common stock	2,046,416.88	2,048,320.08	460,399.42
			<u>\$18,492,334.45</u>
Earned surplus at March 29, 1941			<u><u>\$18,492,334.45</u></u>



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